THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
(DEBTOR IN POSSESSION)
SAINT PAUL, MINNESOTA

MANAGEMENT DISCUSSION AND ANALYSIS
AND
FINANCIAL STATEMENTS - UNAUDITED

YEARS ENDED JUNE 30, 2017 AND 2016

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
(DEBTOR IN POSSESSION)
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2017 AND 2016

INTRODUCTION

Fiscal year 2017 began July 1, 2016 and ended June 30, 2017. While the Archdiocese of Saint Paul and Minneapolis continues to operate under the uncertainty of the ongoing bankruptcy that began in January of 2015, it continues to operate with fiscal responsibility, accountability and transparency.

The financial priority is the fair, just and timely resolution of the more than 400 claims of sexual abuse of minors against the Archdiocese. Some of the claims date back as far as the 1940s and their impact is real and lasting for the claimants, their families and friends. Archdiocesan leaders continue to meet with some of those who were harmed and seek to understand the impact through review of the accounts of other victims/survivors.

In December of 2016, the Archdiocese submitted its second Amended Plan of Reorganization to the U.S. Bankruptcy Court, raising the proposed settlement from $130 million to more than $156 million. The plan is funded by more than $122 million from Archdiocese insurance carriers, the single highest amount provided by insurance carriers in any diocesan bankruptcy to date, nearly $14 million from the sale of available Archdiocesan properties and assets, between $5 million and $6 million from the General Insurance Fund, and nearly $14 million from parish insurers. Those funds would be available to claimants upon the court's approval of the plan.

The financial statements in the following pages show the Archdiocese continues to incur legal and professional expenses (referred to as Special Issues Expense), but these expenses are significantly less than last year. This year, the Archdiocese incurred $4.8 million of Special Issues Expense, compared to $7.9 million in FY 2016. Attorneys for the Archdiocese billed $1 million less, the Official Parish Committee (which represents many of the parishes in the Archdiocese) billed $1.5 million less, and the law firm that represented the Archdiocese in the civil and criminal cases in Ramsey County billed nearly $600,000 less on a year over year basis. The only legal expense that increased in the past year was the amount billed by the attorneys for the Unsecured Creditors Committee, which was $350,000 greater than in FY 2016.

In bankruptcy the entity that files for Reorganization pays the fees of all professionals and attorneys involved. U.S. Bankruptcy Court Judge Robert Kressel has reminded all involved in the case that the longer the process continues, less money will be available to those who have been harmed. That is the guiding force behind the efforts to bring this case to a just and fair resolution as soon as possible. All professional fee requests are subject to review and approval by the bankruptcy court.

Archdiocesan leadership and staff continue to work diligently to be good stewards of the resources entrusted to their care by the faithful, through parish assessments and other donations. For the fourth consecutive year, Operating Expenses Before Special Issues Expense declined. The total Operating Expense Before Special Issues Expense for FY 2017 totaled just short of $18.5 million, down from $18.6 million. Those numbers topped $22.9 million in 2015 and $30.5

million in 2014. This represents a $12 million or 39% decrease since FY 2014. The flattening of expenses over the past two years demonstrates the ability of leadership to hold management accountable to controlling expenses.

After selling the Chancery and Archbishop's Residence for $3.2 million, the Hayden Center for $4.3 million and the Hazelwood property near Northfield for $350,000 in FY 2016 for a combined total of more than $7.8 million dollars, the Dayton Building sold this fiscal year for nearly $900,000. The proceeds from the sale of those properties total almost $8.8 million and are part of the Archdiocese's $156 million proposed settlement for victims/survivors of clergy sexual abuse.

Because of the sale of all offices near the Cathedral of Saint Paul, all Archdiocesan employees moved into leased offices at 777 Forest Street in the Dayton's Bluff neighborhood of Saint Paul. The Archdiocese is one of the area's largest employers and are proud to be part of Saint Paul's East Side. There is a spirit of camaraderie and collaboration having all staff members working together in the same building for the first time in decades. This new working environment allows the Archdiocese to serve parishes better and continue the mission of the Church. The Archdiocese does that by forming and assigning priests to parishes, hospitals and prisons, as well as supporting parishes in their vital mission of evangelizing and catechizing all Catholics and those who are preparing to join the Catholic Church.

While the Archdiocese supports parishes, Catholic schools and other Catholic entities in the 12 counties that make up the Archdiocese of Saint Paul and Minneapolis, this annual fiscal report does not contain their financial information. That is because, under Minnesota law, they are all independent corporations with completely separate finances and are required to prepare their own financial reports.

As part of the commitment to accountability and transparency to the Catholic faithful and the public, the Archdiocese has released its full audited financial reports annually since June 30, 2013. This is important to Archbishop Hebda, the Archdiocesan Finance Council and staff because approximately 70% of the Archdiocese's funding comes from parish assessments, which is predominately the result of plate and envelope collections from parishioners at the parishes. People who give generously to this local Church deserve a full accounting of their resources.

For the third year, because of the ongoing Reorganization, the Archdiocese in consultation with the Archdiocesan Finance Council and Corporate Board of Directors, filed a motion with the bankruptcy court, and was granted approval, to allow their CPA firm to perform Agreed Upon Procedures on the financial statements for the Fiscal Year 2017. These procedures do not represent an audit and as a result you will not see an Independent Auditor's Report attached to the financial statements. The Agreed Upon Procedures were developed by management in consultation with the CPA firm and will assist in governance of the Archdiocese by requiring attestation procedures on key balance sheet accounts and internal controls. The Agreed Upon Procedures are significantly less expensive than an audit. The financial records are submitted on a monthly basis to the bankruptcy court and United States Trustee and are subject to their review.

When the Archdiocese emerges from Reorganization, they intend to return to the standard practice of annual independent audits and will continue the practice of release promptly after completion of the financial statements and auditor’s report.

FINANCIAL CONDITION

For the year ended June 30, 2017 (Fiscal Year 2017), the Archdiocese generated a profit from Operations before Special Issues Expense of almost $2.3 million as compared to $2.2 million in FY 2016. Our loss from Operations in FY 2017 was $2.6 million and compares favorably to a loss of $5.8 million for FY 2016 which was the result of Special Issues Expense decreasing from $7.9 million in FY 2016 to $4.8 million in FY 2017.

The Special Issues Expense of $4.8 million incurred by the Archdiocese during FY 2017 was significantly less than FY 2016 and was due to what can only be described as a “slow down” in the Reorganization process and the resolution of civil charges in Ramsey County in December of 2015 and the dismissal of criminal charges by the Ramsey County Attorney’s Office the following summer. Because the Archdiocese filed for bankruptcy in January of 2015, they are responsible for paying all legal fees incurred by their legal counsel, the legal counsel representing the plaintiffs or victims of sexual abuse, and the official parish committee appointed by the bankruptcy court.

The Archdiocese is very aware of the mounting Special Issues Expense in the Reorganization, now $16 million since FY 2015 when they filed for bankruptcy. A significant portion of those funds have resulted in Archdiocese and parish insurance carriers committing to pay more than $136 million into the $156 million Plan of Reorganization, which would be available upon court approval. That is why the Archdiocese continues to work as efficiently as they are able to end this process and fairly and justly compensate those who have been harmed.

REVENUE

Total Operating Revenue in FY 2017 was $20.7 million, down just more than $50,000 from FY 2016. Parish Assessments, Fees and Program Revenues, and Other Income all decreased, but strong financial markets increased the Investment Income and Contributions increased on a year over year basis, and made up most of the difference. The Investment Income was generated by restricted funds which are not available for general operations or contribution into the Plan of Reorganization.

Parish Assessments, the primary source of revenue, are generated from the 187 parishes within the Archdiocese, decreased by 2.2% to $14.5 million in 2017 from $14.8 million in 2016. Assessments are calculated and billed on a two-year lag which means the parish financial results for the years ended June 30, 2014 and 2015 formed the basis for the Parish Assessments revenue for the years ended June 30, 2016 and 2017, respectively.

OPERATING EXPENSE

Operating Expense Before Special Issues Expense in 2017 totaled nearly $18.5 million as compared to $18.6 million in 2016, a 0.8% decrease. This continued trend of decline in expenses – begun in 2014 – illustrates the continuing commitment to control costs whenever possible, look for opportunities to save, and operate within the financial means.

NON-OPERATING ACTIVITY – GAIN ON SALE OF ASSETS

As previously mentioned, the Archdiocese sold the Dayton Building in 2017. This sale resulted in cash received of approximately $875,000 and a book gain from the sale of $779,000.

NON-OPERATING ACTIVITY – GENERAL INSURANCE PROGRAM

The General Insurance Program of the Archdiocese of Saint Paul and Minneapolis provides comprehensive, uniform coverage to all of the parishes, Catholic schools and certain other Catholic entities within the archdiocese, as well as the Chancery Corporation. The coverage provided by the General Insurance Program includes commercial property, casualty, general liability and workers' compensation. The General Insurance Program is maintained for the benefit of the participants who have contributed those funds in exchange for obtaining insurance coverage.

The General Insurance Program had a surplus from operations of $2.1 million in 2017, down from $3.1 million in 2016. The decrease year-over-year was due to an increase in claims during FY 2017 over FY 2016, which had a historically low claim year.

As noted earlier, the General Insurance Program has committed at least $5 million and no more than $6 million to the Plan of Reorganization.

NON-OPERATING ACTIVITY – PRIEST BENEFITS

The Archdiocese coordinates a self-insured health and dental benefit fund for active priests and seminarians within the archdiocese. The Archdiocese invoices parishes, Catholic Schools and other Catholic entities based on clergy assignments and pays benefit providers directly for any claims. Priest Benefits generated a slight income in 2017 as compared to a loss in 2016. The income was the result of increased rates charged to participants and slightly lower claims.

FINANCIAL POSITION

Net Assets of the Archdiocese were $27.3 million on June 30, 2017 as compared to $26.8 million in 2016, a nearly $500,000 or 1.8% increase as a result of the Statement of Activities Changes in Net Assets in 2017. The increase in Cash to $20.9 million in 2017 from $18.1 million in 2016 is the result of the cash from the sale of the Dayton Building and the approximately $2.3 million of cash generated from Operations Before Special Issues Expense as this expense was not paid during FY 2017.

Of the total Cash on June 30, 2017 of $20.9 million, $9.1 million represents Unrestricted ($5.1 million) and Board Designated ($4 million). Of the Board Designated funds, approximately $2.8 million has been committed to the Plan of Reorganization. The cash Restricted by Bankruptcy, represents the cash proceeds from the sale of our real estate and interest earned on those funds and the remaining cash of $3.1 million, is Restricted by Donors. The categories of Board Designated and Restricted by Donors and their availability for operations will be determined at a future date by the U.S. Bankruptcy Court.

The largest increase in Assets, other than Cash, was in the General Insurance Program Assets. The balance at June 30, 2017 was $14.1 million, an increase of $2.1 million from the balance of $12 million in 2016 and was due to the surplus generated in the program during 2017. $5 to 6 million of that balance is included in the Plan of Reorganization and the remaining balance is required by the regulatory authority overseeing the self-insured workers' compensation program and reserves to pay claims. The increase of approximately $4.4 million in Accounts Payable and Accrued Liabilities, Post-Petition, is the result of accrued and unpaid Special Issues Expense during FY 2017.

It is important to understand that the value of the assets and liabilities on the Condensed Statements of Financial Position are not necessarily reflective of the outcome of Reorganization. They are based on Generally Accepted Accounting Principles. Assets, particularly Land, Property and Equipment, are recorded at their net book value which may not reflect their fair market value. Final determination of the value of the assets and liabilities will occur through the Reorganization process.

LOOKING FORWARD

The cloud of bankruptcy is great and is a heavy burden for many of the employees of the Archdiocese as they complete their day to day responsibilities with uncertainty towards the future.

It is the hope of the Archdiocese that the court will approve the Plan of Reorganization in the near term and the local Church can continue to carry out its core mission of spreading the Gospel message of Jesus Christ. At the same time, changes and strategies leading up to the filing of bankruptcy and the environment in which the Archdiocese have operated since then, have created a stronger more unified and transparent Church. First and foremost the Archdiocese continually works to ensure a safe environment for children. Additionally, out of necessity, the Archdiocese has been able to provide services with less resources, managers have learned to operate within a smaller means and have become more creative and strategic, and have built stronger relationships internally and with the parishes.

The Archdiocese will eventually emerge from bankruptcy and as was well stated by the Moderator of the Curia, Father Charles Lachowitzer, in a recent article in the Catholic Spirit, “we can not just dust off our hands in that familiar gesture of finishing a project. When civil justice has run its linear process, then the virtue of justice must continue to direct our path.”

These have been challenging and uncertain times for all Catholics and the Archdiocese is thankful to all the clergy, lay leaders, staff, volunteers, parishioners and others within the Archdiocese for their commitment to creating a stronger more unified Church.

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
(DEBTOR IN POSSESSION)
STATEMENTS OF FINANCIAL POSITION- UNAUDITED
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Assets		
Cash - Unrestricted and Board Designated	$ 9,109,463	$ 7,515,128
Cash - Restricted by Bankruptcy	8,777,117	7,855,560
Cash - Restricted by Donors	3,057,432	2,722,024
Contributions Receivable, Net of Allowances	573,991	502,018
Accounts Receivables, Net of Allowances	4,044,160	4,538,350
Loans and Notes Receivable, Net of Allowances	1,105,777	1,053,609
Investments	1,077,007	979,597
Beneficial Interest in Perpetual Trusts	1,488,199	1,370,187
General Insurance Program Assets	14,106,969	11,992,782
Prepaid Expenses and Other Assets	324,092	418,996
Land, Property and Equipment, Net	4,540,216	4,054,110
Total Assets	$ 48,204,423	$ 43,002,361
Liabilities and Net Assets		
Liabilities		
Accounts Payable and Accrued Liabilities, Pre-Petition	$ 242,252	$ 239,741
Accounts Payable and Accrued Liabilities, Post-Petition	9,880,768	5,420,469
Litigation Claims Payable, Net of Insurance Recovery	4,600,000	4,600,000
General Insurance Program Claims Payable and Other Liabilities	4,928,498	4,915,635
Amounts Held for Others Under Agency Transactions	127,892	106,164
Parish Demand Deposits	679,304	679,304
Deferred Revenue	75,357	262,444
Lease Payable	75,090	-
Deferred Rent	347,554	-
Total Liabilities	20,956,716	16,223,757
Net Assets		
Unrestricted:		
General Insurance Program	21,997,646	19,896,322
Undesignated	293,238	2,308,791
Total Unrestricted	22,290,884	22,205,113
Temporarily Restricted	2,948,733	2,683,413
Permanently Restricted	2,008,090	1,890,078
Total Net Assets	27,247,707	26,778,604
Total Liabilities and Net Assets	$ 48,204,423	$ 43,002,361

THE ARCHDIOCESE OF SAINT PAUL AND MINNEAPOLIS
CHANCERY CORPORATION
(DEBTOR IN POSSESSION)
STATEMENTS OF ACTIVITIES- UNAUDITED
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating Revenue		
Contributions	$ 2,778,734	$ 2,379,452
Parish Assessments	14,493,612	14,826,794
Fees and Program Revenues	2,179,442	2,348,287
Investment Income/Gains on investments	400,099	7,043
Other Income	877,003	1,218,508
Total Operating Revenue	20,728,890	20,780,084
Operating Expenses		
Program Services		
Catholic Education	1,231,886	1,304,156
Central Services	5,089,918	5,147,631
Clergy Services	4,114,615	4,302,642
Communications	1,849,891	2,044,290
Community Services	42,569	46,108
Evangelization & Catechesis	225,157	332,920
Marriage, Family and Life	957,191	806,161
Parish Service and Outreach	1,960,073	1,724,992
Total Program Services	15,471,301	15,708,900
Support Services		
General and Administrative	2,490,280	2,421,347
Development and Stewardship	501,406	484,762
Total Support Services	2,991,685	2,906,109
Total Operating Expense before Sepcial Issues Expense	**18,462,986**	**18,615,009**
Change in Net Assets from Operations before Special Issues Expense	**2,265,904**	**2,165,076**
Special Issues Expense	4,829,831	7,937,542
Change in Net Assets from Operations	**(2,563,927)**	**(5,772,466)**
Non-operating Changes in Net Assets		
Gain on Sale of Assets	797,084	4,267,286
General Insurance Program Revenue	9,404,646	9,659,853
General Insurance Program Expenses	(7,303,322)	(6,569,079)
Preist Benefits Revenue	2,752,874	2,738,972
Priest Benefits Expense	(2,618,252)	(3,063,927)
Non-operating Change in Net Assets	3,033,030	7,033,106
Change in Net Assets	**$ 469,103**	**$ 1,260,640**

NOTE 1 PETITION FOR RELIEF UNDER CHAPTER 11

On January 16, 2015, the Archdiocese of St Paul and Minneapolis (“the Archdiocese”) filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court (the “Court”) for the District of Minnesota. Under Chapter 11, certain claims against the Archdiocese in existence prior to the filing are stayed while the Archdiocese continues business operations as a Debtor in Possession. These claims are reflected on the June 30, 2017 and 2016 Statements of Financial Position as “Pre-Petition Accounts Payable and Accrued Liabilities” within the liabilities section of the statement. Additional claims may arise subsequent to the filing date resulting from rejection of executory contracts and a determination by the Court of allowed claims. A timely filing deadline for the filing of claims of sexual abuse and general creditor claims was set at August 3, 2015 and subsequently additional claims were filed.

The Archdiocese received permission from the Court to pay or otherwise honor certain of its pre-petition obligations, including the costs of employee wages, benefits and expense reimbursements.

It is important to understand that the value of the assets and liabilities on the Statements of Financial Position are not reflective of the outcome of Reorganization. With the exception of the Litigation Reserve, they are based on Generally Accepted Accounting Principles. Assets, particularly Land, Property and Equipment, are recorded at their net book value which may not reflect their fair market value. Final determination of the value of the assets and liabilities will be at the discretion of the U.S. Bankruptcy Court.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Archdiocese

The Archdiocese of Saint Paul and Minneapolis (the Archdiocese) was first established as a diocese by the Holy See in 1850 (originally Minnesota and the Dakotas), and elevated to archdiocese 38 years later. Now comprising a 12-county area, there are 187 parishes and 90 Catholic schools (including elementary and high schools) within the Archdiocese. The Archdiocese is home to over 825,000 Catholics, including hundreds of clergy and religious sisters and brothers as well as thousands of lay personnel and volunteers who serve in parishes, Catholic schools and in many other ministries within the Archdiocese. The mission of The Archdiocese of Saint Paul and Minneapolis is making the name of Jesus Christ known and loved by promoting and proclaiming the Gospel in word and deed through vibrant parish communities, quality Catholic education and ready outreach to the poor and marginalized.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of Organization

The financial statements include all administrative and program offices and departments of the Chancery Corporation, which serves as the secular arm of the Archdiocese. Under the laws of the State of Minnesota, parishes, their related schools and other separately incorporated and operated Roman Catholic entities within the 12 county area of the Archdiocese are not under the fiscal or operating control of the Chancery Corporation and, therefore, in accordance with accounting principles generally accepted in the United States of America, are not included in the Chancery Corporation's financial statements.

Catholic Services Appeal Foundation

Effective January 1, 2014, an independent 501(c)(3) organization called the Catholic Services Appeal Foundation (CSAF) was established to solicit, collect, hold and distribute all Catholic Services Appeal (CSA) donations for the benefit of a prescribed group of Catholic organizations and Chancery Corporation ministries as outlined in the CSAF by-laws. The Chancery Corporation received contributions from the CSAF to provide for these ministries, including but not limited to Latino Ministry, Evangelization and Catechesis, Youth Ministry and chaplain services at hospitals and prisons throughout the Archdiocese. See further impact of this within contributions receivable in Note 2.

Basis of Presentation – Accounting for Net Assets

The financial statements of the Chancery Corporation have been prepared on the accrual basis of accounting.

The Chancery Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions. These classes of net assets are summarized as follows:

Unrestricted Net Assets – Accounts for resources that the board has discretion and intention to use in carrying out the Chancery Corporation's operations. The General Insurance Program is maintained for the benefit of parishes and other Catholic entities as well as the Chancery Corporation (the Participants).

Temporarily Restricted Net Assets – Accounts for resources that are limited by donor restrictions as to either time restrictions or purpose restrictions to support certain program activities.

Permanently Restricted Net Assets – Those resources that are limited by donor-imposed stipulations to invest the principal in perpetuity and to expend the income for program activities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities

The Chancery Corporation accomplishes its mission in the following program areas:

Catholic Education

The mission of the Office of Catholic Schools is to develop strong partnerships between home and school that fully infuse Catholic teaching and values into every element of the student's educational experience and foster academic excellence. Students are formed to live out the Gospel message, achieve academic excellence, and lead by faith, virtue, and reason. The support provided to the 90 Catholic schools within the Archdiocese includes Catholic identity review and support, leadership development, and programmatic oversight to promote innovation and excellence in local urban Catholic schools. Major responsibilities include identification of the strategic needs of Catholic schools and continuing to serve families in the tradition of excellence Catholic schools have cultivated for more than 160 years.

Central Services

Central Services provides support and services to the Chancery Corporation staff and the parishes. The Department includes: Parish Accounting Service Center; Parish Standards; Metropolitan Tribunal; Records and Archives; Chancellor's Office; IT/Computer Services; Human Resources and Benefits Administration; and Printing Services.

Clergy Services

Various offices and programs of the Chancery Corporation work to provide personal and ministerial resources as well as formation and ongoing clergy education for priests and deacons to enhance the fruitfulness of their ministries. The Office of Clergy Services helps support clergy assignment at parishes and other institutions, as well as hospital and correctional facility chaplaincies. The Office of Vocations encourages prayerful discernment of call to ordained or religious life. The Saint Paul Seminary provides formation for men preparing for ordination to the priesthood. The Byrne Residence offers housing for retired priests. The Office of Clergy Services also provides oversight of victim advocacy and assistance: abuse prevention efforts, intervention on clergy misconduct, support of the work of the Clergy Review Board to ensure prompt and thorough review of clergy misconduct allegations, the Promotion of Ministerial Standards program to ensure that all priests and deacons uphold the standards expected of Catholic clergy, and are provided appropriate support for their spiritual, physical, and mental well-being.

Communications

The mission of the Office of Communications is to communicate the spiritual messages and theological teachings of the Church as articulated through the Archbishop and his auxiliary bishops. The Office of Communications is also charged with ensuring effective ongoing two-way communications between the Chancery Corporation offices and the many audiences they serve. Office of Communications staff produce *The Catholic Spirit* newspaper every other week, assist with other dioceses' newspapers, send the bi-weekly Archdiocesan Update electronic newsletter to 1,500 parish and Catholic school leaders, and manage nearly 20 web sites, blogs and social media sites.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities (Continued)

Community Services

Through the work of offices of the Chancery Corporation and the support of community partners, we help men, women, and children most in need, including the hungry and homeless, as well as immigrants, the elderly, those with disabilities and others with special needs.

Marriage, Family and Life

The mission of the Office of Marriage, Family and Life is to assist and encourage all Christians to fulfill their call to holiness. This office promotes a culture of life through programs that support the vocation of marriage, the single state and outreach to youth and young adults. Programs and advocacy efforts include marriage enrichment, marriage preparation, Early Catholic Family Life and other family outreach, respect life and prolife groups, bio-medical ethics and outreach for persons with disabilities. In addition, Archdiocesan Youth Day, World Youth Day, National Catholic Youth Conference and other youth events are coordinated through the staffing and support of the department. In all, the office sponsors or collaborates on over 50 events and programs annually.

Parish Services and Outreach

Several offices and programs offer services to parishes within the Archdiocese, including the Office of Parish Services which encourages a community of sharing and collaboration in parishes and helps parishes learn from one another.

The Office of Latino Ministry serves the large number of Latino Catholics in the community at more than 20 parishes with Spanish language Masses, catechetical offering and pastoral care. Indian ministry for members of the local Native American community and Deaf Ministry are also supported. Through the generosity of Catholics in the Archdiocese, 65,000 people in Ciudad Guayana, Venezuela are offered access to the sacraments, food and essential services at the Jesucristo Resucitado mission parish. The important work of the Archdiocesan Council of Catholic Women is also supported in this parish service program area.

The Office of Worship supports the liturgical life of the local Church and serves as a resource on liturgical law and practice for pastors and parishes serving within the Archdiocese. The Office coordinates major Archdiocesan liturgical celebrations, and provides catechetical and practical support for the full, conscious and active participation of God’s Holy People in the Church’s sacramental and liturgical life.

Special Issues

Special Issues represent expenses incurred by the Chancery Corporation through third party professionals during the years ending June 30, 2017 and 2016 related predominantly to both fees incurred for attorneys representing the Archdiocese in the reorganization and the Ramsey County charges, as well as attorneys representing the unsecured creditors committee and the parish committee. The Archdiocese is responsible for paying all legal fees incurred for its own legal counsel as well as for legal counsel representing the plaintiffs or victims of sexual abuse, the parish committee, and in connection with the

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Programs and Other Activities (Continued)

Special Issues (Continued)

pending mediation and proceedings and activities as required under the bankruptcy code and rules. These professionals have expertise in the areas of legal, investigative, insurance, financial and communication matters.

General Insurance

The Chancery Corporation, both for itself and as the agent for parishes and various other Catholic entities operating within the boundaries of the Archdiocese, participates in the General Insurance Program (the Program). The Program provides comprehensive, uniform coverage for all of the Participants. The coverage includes general liability, employment practices, building and contents, burglary, personal property, student accident, auto, public library, boilers and workers' compensation. The Program pays a premium to the Workers' Compensation Reinsurance Association for stop loss coverage and has a self-insured retention policy for its property and general liability insurance. The Program also participates in the Catholic Umbrella Pool (CUP), which provides extended coverage for liability claims.

Priest Benefits

The Archdiocese of St. Paul and Minneapolis coordinates a self-insured health and dental benefit fund for active and retired clergy members and seminarians within the Archdiocese. The Archdiocese invoices other Catholic entities based on clergy assignments and pay benefit providers directly for any claims.

Cash

At times throughout the year, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. Cash is classified into three categories, Unrestricted and Board Designated, Restricted by Bankruptcy, and Restricted by Donors. The Cash classified as Restricted by Bankruptcy represents net proceeds from the sale of property owned by the Archdiocese and interest earned on those funds which the Bankruptcy Court ordered to be placed in a restricted account.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Included within support receivables at June 30, 2017 and 2016 are contributions and reimbursable expenses receivable from Catholic Services Appeal Foundation of $208,216 and $136,243, respectively.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are due from parishes and other Catholic entities and are non-interest bearing, unsecured and due currently. Credit terms for payment of assessments, insurance and other billings are extended to the borrowers in the normal course of operations, and no collateral is required. Approximately 77% and 74% of the outstanding receivables from parishes and other related entities are attributable to twelve parishes at June 30, 2017 and 2016, respectively. A portion of the parish assessments will be repaid over a period of several years. The aging of these receivables, as well as any extended payment terms, are factored into the allowance for doubtful accounts. The Chancery Corporation provides for an allowance for doubtful loans, and bases its estimate of the allowance on a variety of factors including the current status of the receivables, collection experience and the financial condition of the creditor. Accounts receivable are written off and charged to the allowance only under extraordinary circumstances. Because of the inherent uncertainties in estimating the allowance for doubtful accounts, it is at least reasonably possible that the estimates used will change within the near term. Approximately 46% and 48% of total accounts receivable are due from parish assessments at June 30, 2017 and 2016, respectively.

Loans and Notes Receivable

Loans are due from parishes and other Catholic entities and represent outstanding demand notes (although generally paid on a long-term basis). Loans receivable are recorded at their net realizable values, net of an allowance for doubtful accounts, where applicable. The Chancery Corporation also grants loans to related Catholic entities operating within the boundaries of the Archdiocese either directly or through its loan fund. Interest is charged on these loans at variable rates. For certain loans, the Chancery Corporation imputes interest and recognizes that interest as contributed income and expense. Interest on impaired loans is generally recognized according to the terms of the notes, and the provision for doubtful loans may be increased each year by the amount of the interest income recognized. No collateral is available for these loans.

The Chancery Corporation provides for an allowance for doubtful loans, and bases its estimate of the allowance on a variety of factors including the current status of the receivables, collection experience and the financial condition of the borrower. Loans and notes receivable are written off and charged to the allowance only under extraordinary circumstances, and write-offs must be approved by the Archbishop.

Notes receivable are recorded at their net realizable value. Based on the historical collection experience and the current status of these receivables, the Chancery Corporation is of the belief that these accounts are fully collectible and, therefore, an allowance for doubtful accounts for these receivables is not necessary.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are measured at fair value. Investments in perpetual trust assets held at The Catholic Community Foundation of Minnesota (CCF), are pooled with other organizations' funds and invested in diversified portfolios of marketable equity and fixed income securities, as well as limited marketability investments. Such assets held at CCF are reported at fair value/estimated fair value as reported to the Chancery Corporation by CCF. The Chancery Corporation's remaining interest in perpetual trust assets held at a bank is reported based on the fair value of the underlying trust assets.

Realized and unrealized gains and losses on investments are recorded in the statement of activities based upon the existence or absence of donor-imposed restrictions.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Land, Property and Equipment

Land, property and equipment are recorded at their net book value and are not necessarily reflective of an outcome of bankruptcy. Depreciation is recorded over the estimated useful lives of the assets using the straight-line method. Maintenance and repairs are expensed as incurred; major improvements and betterments are capitalized according to the Archdiocesan capitalization policy.

Parish Demand Deposits

The Chancery Corporation serves as a fiduciary to a fund for the benefit of parishes with excess funds. The purpose of the fund is to allow these parishes to deposit such excess funds for the administrative ease of these parishes. Participation in the fund is at the complete discretion of each parish. Parish demand deposits represent amounts held on deposit with the Chancery Corporation. No interest accrues on the balances. The deposit balances are unsecured claims within the bankruptcy.

Contributions and Revenue Recognition

The Chancery Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the statement of activities.

The Chancery Corporation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Revenue Recognition (Continued)

must be maintained, the Chancery Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Assessments, fees and program revenue are recognized throughout the year as earned. These revenues are treated as earned when billed. Program revenue received for services to be provided in a future period are recorded as deferred revenue at the time of receipt and earned when the services are delivered.

Expense Allocation

Occupancy expenses are charged to programs and supporting services on the basis of estimated space used in each building. Certain general and administrative costs are allocated to programs based on an analysis of time.

Accounting Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets, liabilities and net assets, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant management estimates include the allowance for uncollectible loans and accounts receivable, the estimate of depreciable lives of property and equipment, workers' compensation claims payable, other contingency losses, such as the estimates for litigation and environmental remediation and guarantees on debt contingencies, and the allocation of expenses on a functional basis. Actual results could differ from those estimates and estimates may change during the near term.

Pension and Medical Benefit Plans

The Chancery Corporation contributes to the Pension Plan for Priests and to the Pension Plan for Lay Employees of the Chancery Corporation, parishes and Catholic schools, and certain other Catholic entities within the Archdiocese. These contributions include normal costs, and an amount to amortize the unfunded past service liabilities of the plans. The actuarial present values of accumulated plan benefits and net assets available for benefits are not available at the individual organization level. The plans are multiple-employer, defined benefit plans and cover substantially all priests and most full-time lay employees of participating employers operating within the boundaries of the Archdiocese.

Benefits for full-time lay employees under the Pension Plan for Lay Employees were frozen January 31, 2011. The Chancery Corporation contributes to the Archdiocesan Medical Benefit Plan, which is a multiple-employer plan providing medical, dental and other flexible benefits to the participating employer’s participating employees. The Plan is a self-insured plan with stop-loss protection. In the event the Plan is terminated and all obligations to the insurers providing group benefits and to the beneficiaries of the Plan have been satisfied, any remaining trust funds shall be distributed to the Chancery Corporation and the Trust shall terminate. The Plan’s Trustees have no plans to terminate the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Chancery Corporation is exempt from Federal and state income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code, and similar state statutes.

The Chancery Corporation has evaluated whether it has any significant tax uncertainties that would require recognition or disclosure. Primarily due to the exempt status, the Chancery Corporation does not have any significant tax uncertainties that would require recognition or disclosure.

Reclassifications and Adjustments

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on the change in net assets or total net assets as previously reported.

NOTE 3 LOANS & NOTES RECEIVABLE

Loans receivable consist of loans and interest receivable from parishes net of an allowance for doubtful loans. Net loans receivable balances were $1,105,777 and $1,053,609 as of June 30, 2017 and 2016, respectively. Approximately 100% of the total principal and interest outstanding balance were due from four organizations for the years ended June 30, 2017 and 2016.

NOTE 4 INVESTMENTS

Unrestricted investments were liquidated in January 2015 as required by the United States Trustee as a part of the reorganization process.

NOTE 5 BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Chancery Corporation is the sole income beneficiary in three irrevocable perpetual trusts, the assets of which are not in the possession of the Chancery Corporation and for which the Chancery Corporation is not the trustee. The values of these trusts totaled $1,488,199 and $1,370,187 at June 30, 2017 and 2016, respectively. These trusts were established with specific donor intent for restricted purposes. The assets recorded on the statement of financial position represent the estimated present values of future cash flows from the trusts, which are assumed to equal the fair value of the underlying trust investments. The Chancery Corporation has legally enforceable rights and claims to distributions from the trusts but not to the underlying assets themselves and receives income distributions based on the funds' income after certain trust expenses. These income distributions are restricted for specific purposes: the Saint Paul Seminary support, support for physically disabled priests, and housing for elderly members of the Christian Brothers religious order.

NOTE 6 LAND, PROPERTY AND EQUIPMENT

Land, property and equipment consisted of the following at June 30:

	Life in Years	2017	2016
Building	20 - 400	9,063,127	9,388,463
Furniture, Equipment and Software	3 - 10	2,305,094	6,012,428
Vehicles	3 - 5	185,412	151,458
Leasehold Improvements	*See Below	1,281,462	852,471
Right to Use Asset	*See Below	1,721,613	1,721,613
		14,556,708	18,126,434
Less: Accumulated Depreciation		(10,016,492)	(14,072,323)
Net, Property and Equipment		4,540,216	4,054,111

Certain facilities owned by the Chancery Corporation are utilized and subject to third-party mortgages. The Chancery Corporation has a lease agreement with the Cathedral of Saint Paul with a base rent of $1 per year. The lease agreement matures in May 2021 and has a renewal option for an additional 20 years.

The Chancery Corporation has a long-term lease agreement with the University of St. Thomas for the rent free use of the Byrne Residence property. The lease agreement matures in 2094 and automatically renews for 25-year terms unless the Chancery Corporation provides a cancellation notice two years prior to the expiration of the lease.

In addition, the Chancery Corporation leases land to three Catholic high schools within the Archdiocese for $1 per year. The leases have terms of 20-30 years which expire on December 31, 2025, June 30, 2030 and June 30, 2038.

During the year ending June 30, 2016, the Chancery Corporation sold three properties with a net book value of $3,581,057 and received net proceeds of $7,847,776 resulting in a gain on the sales of $4,266,719. The proceeds from these sales per court order are required to be held in a separate bank account and are shown separately on the Statement of Financial Position.

In August 2016, the Chancery Corporation sold an additional property with a book value of $97,139 and received net proceeds of $872,278 resulting in a gain of $775,139. These funds are also held in a separate bank account as required by a court order.

NOTE 7 GENERAL INSURANCE PROGRAM

Summary financial information for the General Insurance Program for the fiscal years ended June 30 are as follows:

		2017		2016
ASSETS				
Cash & Equivalents	$	7,936,522	$	5,810,075
Investment - Work Comp Pledge		3,914,068		3,943,626
Premiums Receivable, Net of Allowances		1,470,472		1,531,403
Other Receivables		142,501		62,722
CUP Capital Contribution		532,031		533,586
Funds Provided to Chancery Corporation General Operatinfg Funds		12,819,175		12,819,175
Other Assets		111,374		111,369
Total Assets	$	26,926,145	$	24,811,957
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts Payable, Post-Petition		97,178		66,448
Due to Chancery Corporation		42,889		75,997
Accrued Liabilities		4,788,431		4,773,190
Total Liabilities		4,928,498		4,915,635
Net Assets				
Fund Balance		19,896,322		16,805,547
Current Year Surplus		2,101,324		3,090,775
Total Net Assets		21,997,646		19,896,322
Total Liabilities and Net Assets	$	26,926,145	$	24,811,957
CHANGE IN NET ASSETS				
Total Premium and Other Revenue		9,404,646		9,659,854
Total Claims Expense and Operating Costs		7,303,322		6,569,079
Increase in General Insurance Program Net Assets	$	2,101,324	$	3,090,775

The Funds Provided to Chancery Corporation General Operating Funds does not appear on the statements of financial position because it is eliminated against the corresponding payable by the Chancery Corporation.

At June 30, 2017 and 2016, approximately 76% of the General Insurance Program's gross premiums receivable was due from six participants.

NOTE 7 GENERAL INSURANCE PROGRAM (CONTINUED)

Insurance claims payable include unpaid estimated property claim costs up to the general insurance program's aggregate retention, unpaid estimated workers' compensation claim costs up to the stop loss limit, and an estimate for claims incurred but not reported. Claims liability estimates and assumptions are periodically reviewed and updated with any resulting adjustments to claim liabilities reflected in current operating results.

On September 30, 2014, the Chancery Corporation entered into a custodial agreement with the Minnesota Department of Commerce, directly pledging general insurance fund assets for the self-insured workers' compensation program. At June 30, 2017 and 2016 the balance of the investment was $3,914,068 and $3,943,626, respectively.

Total expenses paid to Catholic Mutual, which processed claims on a contractual basis during the years ended June 30, 2017 and 2016 for the program premiums, were $2,338,982 and $2,341,476, respectively.

NOTE 8 AMOUNTS HELD FOR OTHERS UNDER AGENCY TRANSACTIONS

Amounts held for others under agency transactions consist of charitable collection accounts and funds held for others totaling $127,192 and $106,164 as of June 30, 2017 and 2016, respectively.

NOTE 9 NET ASSETS

Temporarily restricted (by donors) net assets are available for the following purposes at June 30:

	2017	2016
Clergy Services	$ 2,028,669	$ 1,874,526
Catholic Education	251,995	261,286
Parish Services	43,227	29,535
Marriage, Family and Life	264,802	277,059
Other	360,040	241,007
Total	$ 2,948,733	$ 2,683,413

Permanently restricted (by donors) net assets are available for the following purposes at June 30:

	2017	2016
Clergy Services	$ 2,002,790	$ 1,884,778
Other	5,300	5,300
	$ 2,008,090	$ 1,890,078

NOTE 10 ENDOWMENT FUNDS

The Chancery Corporation's endowment consists of donor-restricted endowment funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. The Chancery Corporation receives distributions from these endowments each year based on the spending policies of the financial institution where these endowment funds are held.

NOTE 11 PENSION AND MEDICAL BENEFIT PLANS

Chancery Corporation contributions to benefit plans were as follows for the years ended June 30:

	2017	2016
Pension Plan for Lay Employees	$ 267,660	$ 267,660
Pension Plan for Priests	307,009	485,315
Archdiocesan Medical Benefit Plan	1,411,466	1,074,317
Total	$ 1,986,136	$ 1,827,292

Pension Plans

Effective January 31, 2011, the Pension Plan for Lay Employees (Lay Pension Plan) was frozen. Due to the frozen status of the plan, active plan participants are no longer earning benefits, are no longer accruing additional credited years of service, and pension benefits upon participant retirement will be based upon the participant's credited years of service and salary history as of January 31, 2011. Participants in the plan who were not vested as of the freeze date will continue to earn vesting service after January 31, 2011, for each year in which they work in a full time capacity until these participants become fully vested by reaching five years of full time service. Employees who terminate with five or more years of credited service are generally entitled to annual pension benefits as defined by the Lay Employee Plan. Pension benefits are based primarily on years of service and final average earnings calculated as the average of the employee's five highest earning years.

The Pension Plan for Priests (Priest Pension Plan) covers substantially all incardinated priests, or those beginning the process of incardination established by the Chancery Corporation or one of the participating employers. Priest retirement benefits are computed in accordance with the plan document which can be changed by the trustees of the plan. Pension benefits are calculated primarily based on age at the date of retirement through 65 and years of service, not to exceed 40. Active participants who become totally and permanently disabled receive disability benefits computed as though they had been employed to normal retirement age. The board of trustees has the discretionary authority to pay the cost of medical and dental insurance for participants who retire or become disabled.

NOTE 12 PENSION AND MEDICAL BENEFIT PLANS (CONTINUED)

The risks of participating in these multiple-employer plans are shared with the other employers participating in the plans. Because this is a multiple-employer plan, valuation information is not available specific to each individual or participating employer. The Chancery Corporation's contribution to the Lay Pension Plan is a fixed amount based on a percentage of qualified salaries and the contribution to the Priest Pension Plan are a fixed amount per priest established by the trustees of the Priest Pension Plan. The Chancery Corporation is authorized to continue programs during pendency of bankruptcy case.

NOTE 13 CONTINGENCIES AND COMMITMENTS

Cathedral of Saint Paul

In 2001, the Cathedral of Saint Paul Parish (the Parish) took out a loan for improvements to the Cathedral property that the Parish leases and which the Chancery Corporation owns. The Chancery Corporation allowed the property to be mortgaged at that time. In August 2011, the Parish loan was refinanced to an interest only loan with principal due at maturity in August 2016. The amount outstanding on this loan was $4,438,456 and $4,477,074 at June 30, 2017 and 2016, respectively.

In August 2016, the loan was refinanced, requiring accrued interest payments monthly and interest and principal due at maturity in August 2021.

The Archdiocese is not a guarantor of the loan. In the event of a default, the lender would have the right to foreclose on the property.

Asbestos Containing Materials

A survey of Chancery Corporation buildings was done in 2007 by an environment consulting firm which identified the presence of asbestos containing materials (ACM's). Management's current obligation with respect to the presence of the ACMs is primarily that of monitoring and maintenance. If there is renovation or repair work necessary that disturbs the asbestos, then special removal techniques must be utilized.

Management has determined that an asset retirement obligation related to the presence of ACMs cannot be reasonably determined at this time because insufficient information is available in that both the method of retirement and the expected dates of such retirement cannot be estimated.

NOTE 14 LITIGATION CONTINGENCIES

As of June 30, 2013, litigation claims payable related to sexual abuse was $4,600,000, net of insurance recovery. The amount of the litigation claims payable was based on the minimum amount of the range as no amount within the range was a better estimate of an outcome. The Chancery Corporation had no practical means to determine the likelihood of outcome for amounts above that which would be more likely than any other outcome. No amounts were accrued for unknown claims as losses were not able to be reasonably determined. The amounts recorded were management's estimates and were not intended to be indicative of the actual legal outcomes of the individual cases.

NOTE 14 LITIGATION CONTINGENCIES (CONTINUED)

Subsequent to June 30, 2013, the timely claims filing deadline of August 3, 2015 resulted in the filing of 416 claims of sexual abuse. Additional claims were filed prior to the closing of the statute of limitations in late May of 2016 bringing the total claims of sexual abuse to 444. It is not possible to predict the likely outcome or disposition of the claims due to the uniqueness of each claim, the degrees of sexual abuse, and the age of some of the claims. An estimate of the financial exposure of the Chancery Corporation cannot be made. For that reason, management has not changed the litigation claims payable at June 30, 2016 and 2017.